

MARKET CONDUCT EXAMINATION
NATIONAL MERIT INSURANCE COMPANY

15805 N.E. 24TH STREET
BELLEVUE, WA. 98104

September 1, 2001 – August 31, 2002



TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
Table of Contents	2
Salutation	3
Chief Examiner's Report Certification & Acknowledgements	4
Foreword	5
History, Operations, and General Examination Findings	7
Advertising	8
Agent Activities	9
Complaints	10
Underwriting and Rating	11
Rate and Form Filing	12
Cancellations and Non-Renewals	13
Claims Settlement Practice	15
Summary of Standards	18
Instructions and Recommendations	22
Appendices	23

The Honorable Mike Kreidler
Washington State Insurance Commissioner
PO Box 40255
Olympia, Washington 98504

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010 and procedures promulgated by the National Association of Insurance Commissioners (NAIC) and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed on the following companies:

National Merit Insurance Company, NAIC # 39004
15805 N.E. 24th Street
Bellevue, Washington 98104

In this report, the above entity is also referred to as “the Company”. This examination is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION and ACKNOWLEDGEMENTS

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. Sally Anne Carpenter, AIE, and Shirley M. Merrill of the Washington State Office of the Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended by the personnel of the National Merit Insurance Company during the course of this market conduct examination, including Scott Kallander, Theresa Gonzalez, Michael Vaughn, Christine Boldazsar and the staff that provided daily support to the examiners.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This examination was completed by applying tests to each examination standard. Each test applied during the examination is stated in this report and the results are reported. Exceptions are noted as part of the comments for the applied test. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

SCOPE

Time Frame

The examination covered the companies' operations from September 1, 2001 through August 31, 2002. The examination was performed in the home office in Bellevue, Washington. This is the second market conduct examination of National Merit Insurance Company by Washington examiners. The first examination was completed in 1990 and finalized in 1991, in conjunction with a Federated American Insurance Company examination. **All findings in that examination related to Federated American. There were no findings against National Merit.**

Matters Examined

The examination included the following areas:

Advertising	Underwriting and Rating
Agent Licensing	Cancellations and Non-Renewals
Complaints	Claims Settlement Practices
Rate & Form Filings	

SAMPLING STANDARDS

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

92 %	Confidence Level
+/- 5 %	Mathematical Tolerance

These are the guidelines prescribed by the National Association of Insurance Commissioners in the Market Conduct Examiners Handbook.

Regulatory Standards

Samples are tested for compliance with standards established by the Office of the Insurance Commissioner. The tests applied to sampled data will result in an error ratio, which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as “met.” The standard in the area of agent licensing and appointment will not be met if any violation is identified. The standard in the area of filed rates and forms will not be met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards which look for the existence of written procedures or a process to be in place, the standard will be met based on the examiner’s analysis of those procedures or processes. The analysis will include a determination of whether or not the company follows established procedures.

Standards will be reported as Passed (without Comment), Passed with Comment or Failed. The definition of each category follows.

Passed	There were no findings for the standard.
Passed with Comment	The records reviewed fell within the tolerance level for that standard.
Failed	The records reviewed fell outside of the tolerance level established for the standard.

COMPANY HISTORY AND OPERATIONS

The following Company does business in Washington:

Company Name	Domiciled State	Incorporation Date	Date Admitted to WA
National Merit Insurance Company	WA	1980	1980

During the exam period, the Company wrote personal lines automobile, boat, dwelling, homeowners and umbrella coverages.

National Merit Insurance Company was incorporated under the laws of Washington State on June 18, 1980 under the name of Rainier Insurance Company. The current name was adopted March 16, 1984. The Company was a wholly owned subsidiary of Federated American Insurance Company until all of the outstanding capital stock of Federated American was purchased by Unigard Insurance Company in December 1997. The Company became a subsidiary of the Winterthur Swiss Insurance Group at that time.

The Company is under the direction of chief executive officer, Peter Christen and president, Brian J. DeJong.

The following Operations and Management Standards Passed Without Comment:

#	OPERATIONS AND MANAGEMENT STANDARD	REFERENCE
1	The company is required to be registered with the Office of the Insurance Commissioner prior to acting as an insurance company in the State of Washington.	RCW 48.05.030(1)
2	The Company is required to file with the OIC any amendments to the Articles of Incorporation for domestic insurers or insurance holding companies.	RCW 48.07.070

GENERAL EXAMINATION FINDINGS

The following General Exam Standard Passed without Comment:

#	GENERAL EXAM STANDARD	REFERENCE
1	The Company made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner.	RCW 48.03.030(1)
2	The Company does business in its own legal name.	RCW 48.05.190(1), Bulletin 78-7, Bulletin T 2000-06
3	The Company maintains full and accurate records and accounts.	RCW 48.05.280
4	The Company filed an antifraud plan with the Office of the Insurance Commissioner.	RCW 48.30A.045

ADVERTISING

The Company's advertising file consisted of 15 items:

1. Website www.nationalmerit.com
2. 10 Printed ads for magazines or brochures
3. 4 Radio commercials

The examiners reviewed all documents that were used by the Company during the exam period to determine compliance with the laws governing advertising.

Findings

The following Advertising Standards Passed Without Comment:

#	ADVERTISING STANDARD	REFERENCE
1	The Company's advertising materials do not contain any false, deceptive or misleading representations.	RCW 48.30.040
4	The Company is required to show the actual financial condition of the Company as it corresponds with the financial statements published by each Company and must include only those assets actually owned and possessed by the Company exclusively.	RCW 48.30.070
5	The Company does not advertise the existence of the Washington Insurance Guaranty Association.	RCW 48.30.075
6	The Company does not include any statements in its advertising material that would appear to defame the name of other insurers.	RCW 48.30.080
7	The Company does not misrepresent the terms of its policies in any form during the advertising and solicitation of its products.	RCW 48.30.090
8	The Company does not offer, promise, allow, give, set off, or pay to the insured or to any employee of the insured any rebate, discount, abatement or reduction of premium or any part of these as an inducement to purchase or renew insurance unless specifically exempted from this statute.	RCW 48.30.140, RCW 48.30.150

The following Advertising Standards Failed:

#	ADVERTISING STANDARD	REFERENCE
2	The Company does not use quotations or evaluations from rating services or other sources in a manner that appears to be deceptive to the public.	WAC 284-30-660
3	The Company must use its full name and include the location of its home office or principle office in all advertisements.	RCW 48.30.050, Bulletin No.78-7, T2000-06

Advertising Standard # 2:

- One (1) printed advertisement (6%) shows A.M. Best Ratings without providing a full explanation of the rating scale. This brochure also contained references about cost savings that could be misleading.

Advertising Standard #3:

- Two (2) advertisements (13%), a pamphlet and a magazine ad, did not identify the home or principal office.

See Appendix 1 for detail.

Subsequent event: The Company advised that the brochure with the A.M. Best rating would be removed from circulation until corrections could be completed.

AGENT ACTIVITIES

The examiners selected 25 agents for review from the new and renewed policies reviewed for the underwriting sample and the list of active agents provided by the Company. As part of the review, the examiners compared the Company's agent licensing records with the Office of the Insurance Commissioner's (OIC) records to ensure that agents soliciting business for the Company were licensed and appointed prior to soliciting business on behalf of the Company as required by Washington law. The examiners found that agents were properly licensed and appointed when soliciting on behalf of the Company.

Findings

The following Agent Activity Standards Passed Without Comment:

#	AGENT ACTIVITY STANDARD	REFERENCE
1	The Company ensures that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Company in any way.	RCW 48.17.060(1) and (2)
2	The Company requires that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the company.	RCW 48.17.160

COMPLAINTS

The examiners selected 22 complaint files for review from a population of 42 complaints filed between January 1, 1999 and September 11, 2002 from the Company records. All of the complaint files selected were also recorded on the OIC complaint data base. The complaints consisted of 11 claims issues and 11 underwriting or marketing issues.

Files were reviewed to determine if the Company responded to complaints within time frames stated in its procedures and those required by Washington law. Files were also reviewed for adverse trends. The complaints reviewed included issues of pricing, underwriting, claims settlements, cancellations, and non-renewals.

The examiners also reviewed the Company's complaint handling procedures. The complaint is received by the President. It is entered into the complaint log and distributed to the appropriate manager for response. The manager reviews the response with the President before it is sent to the OIC. The log is updated, and the complaint and response are archived.

The majority of the underwriting complaints concerned the Company's strict underwriting guidelines related to young drivers. There were also two (2) complaints about the Company's refusal to write homeowner's coverage for non-related homeowners. The Company provided a memo to underwriters documenting that this restriction has been lifted August 31, 2001

The claims complaints did not follow a pattern. They included a delay in investigation, assessment of comparative negligence, concern over the amount of an estimate, and a slow investigation.

The following errors were noted in the files reviewed:

- One (1) file contained evidence that a few payments for medical bills were not paid within a reasonable timeframe.
- One (1) file contained evidence that the claim handler filed a medical bill in the file without paying it. This appeared to be an oversight as all other payments were made.
- One (1) file (claim # 30113204) contained a violation of WAC 284-30-340 for failing to document the file appropriately.

Findings

The following Complaint Standard Passed Without Comment:

#	COMPLAINT STANDARD	REFERENCE
1	Response to communication from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication.	WAC 284-30-650, WAC 284-30-360(2), Technical Advisory T98-4

UNDERWRITING AND RATING

The examiners selected the following samples for the underwriting review.

- 100 personal lines policies from a population of 30,643 that were newly issued or renewed during the exam period.

Files were reviewed to determine if:

- the Company follows its filed rating plans
- the Company follows its underwriting rules consistently
- the Company was in compliance with Washington laws.

The examiners manually rated policies to determine if there were any programmed errors in the Company's computer system and if the Company was using its filed and approved rates.

The following errors were identified and referred to the Company for correction or review:

- One (1) policy was written in 1982. The insured requested but did not receive Uninsured Motorist Property Damage (UMPD) coverage. The Company advised it would follow-up with the insured to either add the coverage or obtain a signed waiver.
- The Company was unable to provide documentation that the insured was advised of a change in physical damage deductibles.
- The Company was unable to provide the insured's request to cancel all the policies. This is documentation that should have been imaged and retained by the Company.
- Insured's application was unclear about UMPD limits. The Company clarified the insured's wishes, and amended the policy while the examiners were on site.

Findings

The following Underwriting Standards Passed Without Comment:

#	UNDERWRITING & RATING STANDARD	REFERENCE
2	The Company requires an insured to reject, in writing, underinsured motorist coverage or Personal Injury Protection coverage.	RCW 48.22.030(4), RCW 48.22.085(2)
3	During underwriting, the Company uses only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance.	RCW 46.52.130, RCW 48.30.310, Bulletin 79-3
4	The Company applies schedule rating plans to all policies as applicable in its filing.	WAC 284-24-100
5	The Company retains all materials and documents used in the development of (a) rates, and maintains all materials associated with the use of (a) rates.	WAC 284-24-070

#	UNDERWRITING & RATING STANDARD	REFERENCE
6	The Company may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage.	WAC 284-30-574
7	Binders must identify the insurer in which they are bound.	WAC 284-30-560(2)(a)

The following Underwriting Standards Failed:

#	UNDERWRITING & RATING STANDARD	REFERENCE
1	Binders issued to temporarily secure coverage are valid until the policy is issued or ninety days, whichever is shorter and shall identify the company providing the coverage and effective dates.	RCW 48.18.230(1), WAC 284-30-560(2)

Underwriting Standard #1:

- Eleven (11) applications (40%) of the 25 declined applications reviewed for compliance to cancellation and non-renewal standards were taken by telephone, and allegedly bound with the acceptance of a credit card payment. The Company considered the policies bound, however, the insured was not issued a binder according to the requirements of WAC 284-30-560(2). In some cases, when the Company decided that it would not underwrite the insured a binder was sent, with dates that did not coincide with the initial purchase.

See Appendix 1 for detail.

Subsequent Event: The Company provided documentation that effective December 16, 2002 the binding procedures had been amended to comply with WAC 284-30-560. The Company automated the process to ensure that a binder was issued according to the code, and that procedures were updated.

RATE AND FORM FILINGS

The examiners selected nine (9) forms that were attached to the 350 new and renewal policies used in the Underwriting sample for the rate and form filings review.

The purpose of this sample was to determine if the Company was complying with the laws regarding the filing and use of rates and forms.

Findings

The following Rate and Form Filing Standards Passed Without Comment:

#	POLICY PROVISION STANDARD	REFERENCE
1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use.	RCW 48.18.100, RCW 48.18.103
3	The declarations page of a policy must identify all forms that make up the policy. The policy will identify all coverage limits.	RCW 48.18.140(2)(f)
4	The policy must contain all endorsements and forms.	RCW 48.18.190
5	Policy forms for commercial policies are filed within 30 days of use.	RCW 48.18.103(2)
6	Personal Injury Protections forms issued by the Company contain coverage definitions and limits that conform to Washington law.	RCW 48.22.095 RCW 48.22.005

The following Rate and Form Filing Standard Failed:

#	POLICY PROVISION STANDARD	REFERENCE
2	Where required, the Company has filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect.	RCW 48.19.040(6)

- The examiners found one (1) policy in the sample that was not rated according to the filed rates. The error was caused by an earthquake factor that had not been changed to the current filed rate. The Company provided a list of all 15 policies that were rated incorrectly because of this error. All policies were undercharged and will be corrected at renewal.
- The examiners found one (1) policy that was issued with a \$250 deductible in an HO5 program. The filing that was approved for the HO5 program did not contain a factor for rating policies with a \$250 deductible. The Company provided the examiners with a list of all three (3) policies that were not rated according to the filing. All will be corrected at renewal.
- One (1) boat policy was rated incorrectly because a surcharge for the age of the vessel was not included. The Company advises it will correct this at renewal.
- One (1) boat policy was rated incorrectly because a credit for a safety course was not given. \$8.15 was returned to the policyholder.

See Appendix 2 for detail.

CANCELLATIONS AND NON-RENEWALS

The examiners reviewed files to determine if the Company was in compliance with state laws governing cancellations and non-renewals.

The examiners selected 100 policies from a population of 2,085 personal lines policies that were either cancelled or non-renewed during the exam period. The examiners also reviewed 18 additional policies that were written through the one agent whose relationship was terminated with the Company that were cancelled or non-renewed during the exam period. The examiners also reviewed 25 applications that the Company declined to write. (Additional detail regarding the declined applications is available in the Underwriting section of this report.)

The following errors were noted:

- The cancellation notice on one (1) file indicated that the policy would cancel within 10 days of the notice without allowing any time for processing or mailing.
- One (1) application was denied in the Ultra Preferred market. The insured qualified for the preferred market, but it was not offered because the underwriter erroneously considered a citation that was more than three (3) years old. The Company failed to apply the correct underwriting guideline as citations more than three (3) years old are not to be considered in underwriting.
- One (1) policy contained two (2) binders. There was a gap in the effective dates of the binders.

Findings

The following Cancellation and Non-renewal Standards Passed Without Comment:

#	CANCELLATION & NON-RENEWAL STANDARDS	REFERENCE
1	The Company does not cancel or refuse to renew policies because the agent is no longer affiliated with the Company.	RCW 48.17.591
2	The Company sends offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination.	RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292

The following Cancellation and Non-renewal Standard Passed With Comment:

#	CANCELLATION & NON-RENEWAL STANDARDS	REFERENCE
3	The Company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured.	WAC 284-30-570

- One (1) file was non-renewed because the vehicle was identified as ineligible. There was no explanation to the insured explaining why it was ineligible.

CLAIM SETTLEMENT PRACTICES

The examiners selected 250 claim files for review from a population of 7,887 claims closed during the examination period, and an additional 20 claims with first party total loss automobile claims. Files were reviewed for:

- Compliance with Washington law
- Timeliness of contact with claimants
- Promptness of payments
- Explanation of coverage applicable
- Procedures for establishing actual cash value of total loss vehicles
- Documentation of claim files

Claims are handled in the regional claims office in Bellevue, Washington. The following errors were returned to claims management for review:

- Two (2) claims were paid with a \$100 UMPD deductible. The correct deductible was \$300.
- One (1) claim was paid but there was no liability on the part of the insured.
- One (1) claim was paid as a comprehensive claim. It should have been paid as collision.
- One (1) file contained a calculation error in the total loss settlement resulting in an additional payment to the insured of \$44.
- One (1) file did not contain an imaged copy of the letter sent to the insured.
- One (1) title of a total loss vehicle was not stamped destroyed before sent to the salvage company for processing.
- One (1) file contained an e-mail with a question from the insured that was not answered.

Findings

The following Claims Standards Passed Without Comment:

#	CLAIM STANDARD	REFERENCE
3	The Company provided explanation of all pertinent coverage to first party claimants.	WAC 284-30-350
6	The Company must accept or deny coverage within 15 days after receiving proof of claim.	WAC 284-30-380
9	The Company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required.	RCW 46.12.070, WAC 308-56A-460

The following Claims Standards Passed With Comment:

#	CLAIM STANDARD	REFERENCE
2	The Company's claim files contain detailed log notes and work papers so as to allow the examiners to reconstruct the claim file.	WAC 284-30-340
4	The Company responds to all communications on a claim file within the time frames prescribed.	WAC 284-30-360(1) and (3)
5	The Company complies with requirement for prompt investigation of claims.	WAC 284-30-370
7	The Company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.	WAC 284-30-390
8	The Company complies with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits.	WAC 284-30-395

Claim Standard #2:

Five (5) files (2%) did not contain log notes in sufficient detail to establish pertinent events or the dates of those events.

Claim Standard #4:

One (1) file (< 1%) did not contain a response to a letter from the claimant carrier.

Claim Standard #5:

Four (4) files (2%) contained evidence of delays in the investigation for no apparent reason.

Claim Standard #7:

Three (3) files did not contain documentation that title transfer fees and/or pro-rated license fees had been included in the settlements.

One (1) file (<1%) contained a total loss settlement that was not determined according to the methodology prescribed in the code.

Claim Standard # 8:

One (1) file (<1%) did not contain the appropriate support to terminate the medical benefits.

See Appendix 4 for detail.

The following Claims Standard Failed:

#	CLAIM STANDARD	REFERENCE
1	The Company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act.	WAC 284-30-330(9)

Claim Standard # 1:

Twenty six (26) files (10%) had settlement checks that did not identify the coverage under which payment was made, nor was there an explanatory statement identifying the coverage accompanying the check.

See Appendix 3 for detail.

SUMMARY OF STANDARDS

General Examination Standards:

#	STANDARD	PAGE	PASS	FAIL
1	The Company made available to the examiners all requested information in a timely manner. RCW 48.03.030(1) and WAC 284-30-650	7	X	
2	The Company conducts business in its own legal name. RCW 48.05.190(1), Bulletin 78-7, Bulletin T 2000-06	7	X	
3	The Company maintains full and accurate records of the policy records. RCW 48.05.280	7	X	
4	The Company filed an antifraud plan with the Office of the Insurance Commissioner RCW 48.30A.045	7	X	

Company Operations and Management:

#	STANDARD	PAGE	PASS	FAIL
1	The Company is required to be registered with the Office of the Insurance Commissioner prior to acting as an insurance company in the State of Washington. RCW 48.05.030(1)	7	X	
2	The Company is required to file with the OIC any changes to Articles of Incorporation, or amendments for domestic companies. RCW 48.07.070	7	X	

Advertising:

#	STANDARD	PAGE	PASS	FAIL
1	The Company's advertising materials do not contain any false, deceptive or misleading representations. RCW 48.30.040	8	X	
2	The Company does not use quotations or evaluations from rating services, advisory services or other sources in a manner that appears to be deceptive to the public. WAC 284-30-660	8		X
3	The Company must use its full name and include the location of its home office or principle office in all advertisements. RCW 48.30.050	9		X
4	The Company is required to show the actual financial condition of the Company as corresponds with the financial statements published by the Company and must include only those assets actually owned and possessed by the Company exclusively. RCW 48.30.070	8	X	
5	The Company does not advertise the existence of the	8	X	

#	STANDARD	PAGE	PASS	FAIL
	Washington Insurance Guaranty Association. RCW 48.30.075			
6	The Company does not include any statements in its advertising material that would appear to defame the name of other insurers. RCW 48.30.080	8	X	
7	The Company does not misrepresent the terms of its policies in any form during the advertising and solicitation of its products. RCW 48.30.090	8	X	
8	The Company does not offer, promise, allow, give, set off, or pay to the insured or to any employee of the insured any rebate, discount, abatement or reduction of premium or any part of these as an inducement to purchase or renew insurance unless specifically exempted from this statute. RCW 48.30.140, RCW 48.30.150	8	X	

Agent Activity:

#	STANDARD	PAGE	PASS	FAIL
1	The Company ensures that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Company in any way. RCW 48.17.060(1) and (2)	9	X	
2	The Company requires that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the companies. RCW 48.17.160	9	X	

Complaints:

#	STANDARD	PAGE	PASS	FAIL
1	Response to communication from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication. WAC 284-30-650, WAC 284-30-360(2), Technical Advisory T98-4	10	X	

Underwriting and Rating:

#	STANDARD	PAGE	PASS	FAIL
1	Binders issued to temporarily secure coverage during underwriting are valid until the policy is issued or ninety days, whichever is shorter. RCW 48.18.230(1). Written binders should be issued within 24 hrs (WAC 284-30-560(2))	12		X
2	The Company requires an insured to reject, in writing,	11	X	

#	STANDARD	PAGE	PASS	FAIL
	underinsured motorist coverage. (RCW 48.22.030(4))			
3	During underwriting, the Company obtains and uses only the personal driving record for personal insurance and only the employment driving record for commercial insurance. (RCW 48.30.310, RCW 46.52.130, Bulletin 79-3)	11	X	
4	The Company applies schedule rating plans to all policies as applicable. (WAC 284-24-100)	11	X	
5	The Company retains all documentation related to the development and use of (a) rates. (WAC 284-24-070)	11	X	
6	The Company may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage. (WAC 284-30-574)	12	X	
7	Binders must identify the insurer in which they are bound (WAC 284-30-560(2)(a))	12	X	

Rate and Form Filings:

#	STANDARD	PAGE	PASS	FAIL
1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use. (RCW 48.18.100)	13	X	
2	Where required, the Company has filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect. (RCW 48.19.040)	13		X
3	The declarations page of a policy will identify all forms that make up the policy. The policy will identify all coverage limits. (RCW 48.18.140)	13	X	
4	Policy must contain all endorsements and forms. (RCW 48.18.190)	13	X	
5	Policy forms for commercial policies are filed within 30 days of use. (RCW 48.18.103(2))	13	X	
6	Personal Injury Protections forms issued by the Company contain coverage definitions and limits that conform to Washington law. (RCW 48.22.095)	13	X	

Cancellations and Non-Renewals:

#	STANDARD	PAGE	PASS	FAIL
1	The Company does not cancel or refuse to renew policies because the agent is no longer affiliated with the Company. (RCW 48.17.591)	14	X	

#	STANDARD	PAGE	PASS	FAIL
2	The Company sends offers to renew or cancellation or non-renewal notices within the prescribed time frames. (RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292)	14	X	
3	The Company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured. (WAC 284-30-570)	14	X	

Claims:

#	STANDARD	PAGE	PASS	FAIL
1	The Company settles claims in a manner which is not in conflict with any section of the Unfair Claims Settlement Practices set forth in Washington regulations. (WAC 284-30-330)(3)	17		X
2	The Company claim files contain detailed log notes and work papers that allow reconstruction of the claim file. (WAC 284-30-340)	16	X	
3	The Company claim files shall contain documentation that all pertinent benefits and coverage were disclosed to the first party claimants. (WAC 284-30-350)	15	X	
4	The Company acknowledges all communications on a claim within the time frames prescribed in Washington administrative code. (WAC 284-30-360)	15	X	
5	The Company complies with requirements for prompt investigation of claims (WAC 284-30-370)	16	X	
6	The Company settles or denies any first party claim after receipt of documentation of the claim within 15 days. (WAC 284-30-380)	15	X	
7	The Company settles auto claims in a prompt, fair, and equitable manner. (WAC 284-30-390)	16	X	
8	The Company complies with regulations concerning personal injury protection (PIP) coverage. (WAC 284-30-395)	16	X	
9	The Company properly sends vehicle titles or other accepted documentation to the Department of Licensing for destruction. (RCW 46.12.070) (WAC 308-56A-460)	15	X	

INSTRUCTIONS AND RECOMMENDATIONS

INSTRUCTIONS

1. The Company is instructed to comply with WAC 284-30-660 to establish procedures that ensure all advertising using A M Best or similar rating scales are fully explained in the advertisement. (Page 9)
2. The Company is instructed to identify the companies' home office or principal office location on advertising to ensure compliance with RCW 48.30.050. (Page 9)
3. The Company is instructed to ensure that binders are issued within one day of binding coverage pursuant to the requirement of WAC 284-30-560(2) (Page 12)
4. The Company is instructed to comply with all requirements of RCW 48.19.040 in the rating and issuance of policies. (Page 13)
5. The Company is instructed to comply with WAC 284-30-330(9) to ensure that the coverage under which claims are paid is disclosed to first party claimants, either on the check, or under separate cover. (Page 17)

RECOMMENDATIONS

1. It is recommended that the Company revise the application for boats to clearly capture identification that would make insureds eligible for credits, such as navigational aids, or boating safety courses.

APPENDIX 1

ADVERTISING

WAC 284-30-660 Advertising Standard # 2	The Company does not use quotations or evaluations from rating services, advisory services or other sources in a manner that appears to be deceptive to the public.
Brochure: National Merit The Northwest's low rate leader for over 20 years.	Reference to A M Best rating scale not completely explained. Also contained a misleading comment regarding cost savings based on direct writing.
RCW 48.30.050 Advertising Standard # 3	The Company must use its full name and include the location of its home office or principle office in all advertisements.
Brochure: It pays to be a responsible home owner.	No home office or principal office on pamphlet.
Magazine Advertisement #OINM1020	No home office or principal office identified.

UNDERWRITING

WAC 284-30-560(2) Underwriting Standard # 7	Binders shall be issued no later than the next business day. The binder must be dated, and state the date and time coverage is effective, acknowledge premium money received and briefly describe the coverage.
Policy Number	Comment
FAA 1449506	Binders were not issued according to the requirements of the code.
PFA 1452813	Binders were not issued according to the requirements of the code.
FFA 1468502	Binders were not issued according to the requirements of the code.
FFA 1443735	Binders were not issued according to the requirements of the code.
FAA 1456276	Binders were not issued according to the requirements of the code.
FAA 1444084	Binders were not issued according to the requirements of the code.
FAA 1451360	Binders were not issued according to the requirements of the code.
FAA 1461191	Binders were not issued according to the requirements of the code.
PFA 1471869	Binders were not issued according to the requirements of the code.
PFA 1446046	Binders were not issued according to the requirements of the code.
FAA 1437305	Binders were not issued according to the requirements of the code.

APPENDIX 2

RATE & FORM FILING

RCW 48.19.040 Rate & Form Standard #2	Policies shall be issued according to the filing in effect.
Policy Number	Comments
1409425	Policy not rated with filed factors for earthquake.
1454731	Policy not rated with filed factors for earthquake.
1419165	Policy not rated with filed factors for earthquake.
1459433	Policy not rated with filed factors for earthquake.
1385487	Policy not rated with filed factors for earthquake.
1347493	Policy not rated with filed factors for earthquake.
1387261	Policy not rated with filed factors for earthquake.
1143033	Policy not rated with filed factors for earthquake.
1443502	Policy not rated with filed factors for earthquake.
1475816	Policy not rated with filed factors for earthquake.
1347723	Policy not rated with filed factors for earthquake.
1361192	Policy not rated with filed factors for earthquake.
1361263	Policy not rated with filed factors for earthquake.
1437154	Policy not rated with filed factors for earthquake.
1336913	Policy not rated with filed factors for earthquake.
1453732	Policy rated with \$250 deductible which was not filed in the HO5 program.
1437029	Policy rated with \$250 deductible which was not filed in the HO5 program.
1444958	Policy rated with \$250 deductible which was not filed in the HO5 program.
134295-1	Policy rated without applying surcharge for the age of the boat. To be corrected at renewal.
132003-8	Insured did not receive the credit for a safety course. \$8.15 refunded to the insured.

APPENDIX 3

CLAIMS

WAC284-30-330(9) Claim Standard # 1	Payments to insureds shall indicate under which coverage the payment is made.
Claim number	Comments
39912550	The check contains descriptive information about the payment, however does not identify the coverage as required.
30114053	The check contains descriptive information about the payment, however does not identify the coverage as required.
30114610	The check contains descriptive information about the payment, however does not identify the coverage as required.
30212187	The check contains descriptive information about the payment, however does not identify the coverage as required.
30210386	The check contains descriptive information about the payment, however does not identify the coverage as required.
30114888	The check contains descriptive information about the payment, however does not identify the coverage as required.
30114610	The check contains descriptive information about the payment, however does not identify the coverage as required.
30211150	The check contains descriptive information about the payment, however does not identify the coverage as required.
30211472	The check contains descriptive information about the payment, however does not identify the coverage as required.
30114513	The check contains descriptive information about the payment, however does not identify the coverage as required.
30114389	The check contains descriptive information about the payment, however does not identify the coverage as required.
30114543	The check contains descriptive information about the payment, however does not identify the coverage as required.
30114219	The check contains descriptive information about the payment, however does not identify the coverage as required.
30212863	The check contains descriptive information about the payment, however does not identify the coverage as required.
30115306	The check contains descriptive information about the payment, however does not identify the coverage as required.
30210732	The check contains descriptive information about the payment, however does not identify the coverage as required.
30211228	The check contains descriptive information about the payment, however does not identify the coverage as required.
30211733	The check contains descriptive information about the payment, however does not identify the coverage as required.
30210248	The check contains descriptive information about the payment, however does not identify the coverage as required.

Claim number	Comments
30210449	The check contains descriptive information about the payment, however does not identify the coverage as required.
30212140	The check contains descriptive information about the payment, however does not identify the coverage as required.
30115212	The check contains descriptive information about the payment, however does not identify the coverage as required.
30211839	The check contains descriptive information about the payment, however does not identify the coverage as required.
30110828	The check contains descriptive information about the payment, however does not identify the coverage as required.
30212202	The check contains descriptive information about the payment, however does not identify the coverage as required.
30211917	The check contains descriptive information about the payment, however does not identify the coverage as required.

APPENDIX 4

CLAIMS

WAC284-30-340 Claim Standard #2	Claim files must contain work papers and log notes in such detail so that pertinent events and the dates of those events could be reconstructed.	
Claim Number	Comment	Recovery Amount
30210472	Log notes do not contain sufficient detail.	
30110928	Log notes do not contain sufficient detail.	
30110807	Log notes do not contain sufficient detail.	
30213494	Log notes do not contain sufficient detail.	
30110828	Log notes do not contain sufficient detail.	
WAC 284-30-360(3) Claim Standard #4	Requires replies to claimant communications within 10 working days.	
Claim Number	Comment	Recovery Amount
30111360	There was no response to a claimant carrier's subrogation notice.	
WAC 284-30-370 Claim Standard #5	Claims investigations shall be completed within 30 days unless there is sufficient reason that the investigation could not be completed in that time frame.	
Claim Number	Comment	Recovery Amount
30212941	Delay in investigation. There is no explanation supporting the reason for the delay.	
30211811	Delay in investigation. There is no explanation supporting the reason for the delay.	
30014571	Delay in investigation. There is no explanation supporting the reason for the delay.	
30212202	Delay in investigation. There is no explanation supporting the reason for the delay.	
WAC 284-30-390 Claim Standard #7	Establishes methods for determining value of a first party total loss automobile, including taxes and fees to be included.	
Claim Number	Comment	Recovery Amount
30114543	Title transfer fees were not included in the settlement. Additional payment made to the insured.	\$11.75

30113706	Pro-rated license and title transfer fees were not included in the settlement. Additional payment made to the insured.	\$65.43
30110828	Title transfer fees were not included in the settlement. Additional payment made to the insured.	\$11.75
30211470	Method used to determine value does not satisfy the requirements of the WAC 284-30-390(1)(a-c)	
WAC 284-30-395 Claim Standard #8	Established the criteria under which the insurer may terminate, limit or deny PIP benefits.	
Claim Number	Comment	Recovery Amount
30113756	Insurer did not have the required information to limit benefits based on the allowable criteria.	